Fraser & Neave Holdings (FNH MK)

Beverage Behemoth Set For Maiden Entry Into Dairy

- F&N's dairy farm has achieved key global dairy benchmarks, resulting in yields significantly higher than its closest local competitor. Furthermore, the self-sustaining nature of its farming practices delivers significant cost advantages.
- Commercial milk production is due to commence in Jan 26, coinciding with operational losses diminishing soon thereafter.
- Maintain BUY as F&N offers bargain valuations and its dairy project is gaining momentum. Target price is raised to RM40.00 (from RM36.30).

	BUY (Maintained)
Share Price	RM31.04
Target Price	RM40.00
Upside	28.9%

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Analysis

- **Strong on-farm performance.** F&N AgriValley now houses around 6,500 cows, following two import batches of 2,500 each in Apr and Nov 25. The initial milking herd has achieved a yield of 28 litres per cow per day, with conception and mortality rates tracking within acceptable milestones but making Fraser & Neave Holdings (F&N) over 50% more productive than its nearest competitor. Its first corn harvest was recently completed, supporting the goal of achieving 60-70% feed self-sufficiency to reduce production costs. Water needs will be met internally through multiple reservoirs across the 2,726-ha farm (equivalent to about 3,822 football fields), while solar power generation options are also being explored.
- **Commercial production set for Jan 26 launch.** The dairy factory is slated for commercial production in Jan 26, with an annual output of 200m litres of fresh milk across Phases 1 and 2 - equivalent to about 35% of Malaysia's total milk consumption. At the current run rate, annualised production stands at about 45m litres. Within a year of its first cow import, F&N has evolved into Malaysia's second-largest integrated dairy producer. The majority of output will cater to domestic demand, with about 35m litres allocated to Singapore and Cambodia.
- **Financial inflection point ahead.** Previously, management indicated that it may take up to three years for the upstream dairy project to breakeven at the PAT level. This implies breaking even at the operational level could take 1-2 years. Quarterly losses are expected to peak over the next two quarters before easing. Given the readily available uptake of milk with export sales, its established fresh milk brand Magnolia in Malaysia, and decent crop yields, achieving operational breakeven within the anticipated timeline could be well within reach. About 90% of the RM1.8b capex earmarked for Phase 1 of the dairy project has been incurred.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5245.6	5196.6	5369.8	5650.0	5863.8
EBITDA	855.1	905.4	984.1	1054.1	1090.0
Operating profit	710.4	754.3	760.3	819.6	846.1
Net profit (rep./act.)	542.8	508.5	552.3	602.1	632.5
Net profit (adj.)	543.7	517.3	552.3	602.1	632.5
EPS	148.0	138.6	150.6	164.2	172.4
PE	20.9	22.0	20.6	18.9	18.0
P/B	3.1	2.9	2.7	2.6	2.4
EV/EBITDA	12.6	12.4	11.1	10.1	9.4
Dividend yield	2.0	2.1	2.2	2.4	2.6
Net margin	10.3	9.8	10.3	10.7	10.8
Net debt/(cash) to equity	-15.2	-7.5	-9.2	-15.0	-20.2
Interest cover	75.8	60.4	261.1	207.6	76.1
ROE	17.3	15.5	16.1	16.8	16.8
Consensus net profit	n.a	n.a	522.0	569.0	627.0
UOBKH/Consensus (x)	n.a	n.a	1.06	1.06	1.01

Source: F&N, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	**Consumer Staples**
Bloomberg ticker	FNH MK
Shares issued (m)	366.8
Market cap (RMm)	11,385.0
Market cap (US$m)	2,763.7
3-mth avg daily t'over (US$m)	0.5

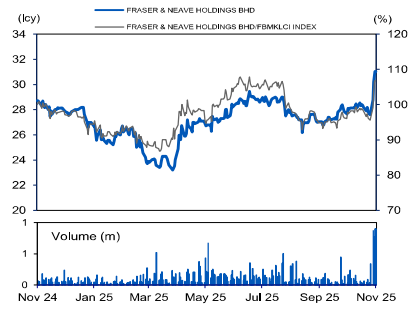
Price Performance (%)

52-week high/low				**RM29.46/RM23.30**
1mth	**3mth**	**6mth**	**1yr**	**YTD**
12.2	11.8	16.9	7.0	10.1

Major Shareholders

	%
Fraser and Neave Ltd	55.5
FY25 NAV/Share (RM)	10.55
FY25 Net Debt/Share (RM)	0.22

Price Chart



Source: Bloomberg

Company Description

Leading beverage player which is principally involved in the manufacture, sale and marketing of soft drinks, dairies, and non-carbonated drinks.

- **Key expert driving F&N's dairy push.** Michael Pedreiro, the General Manager of F&N AgriValley (F&N's dairy project), is a seasoned dairy industry executive and consultant with over 20 years of experience in large-scale farm management, herd genetics, and operational optimisation — expertise now channelled into F&N AgriValley. A Cornell-trained Animal Science graduate, he has led multi-state dairy operations exceeding 15,000 cows, driving gains in milk yield, herd health, and sustainability. As former COO of Dairy Production Systems and founder of Farmdamentals, Inc, Pedreiro has implemented advanced reproductive programmes and biosecurity systems. His leadership with Alta Genetics, ABS Global, and AHV International underpins his role in developing F&N's integrated, data-driven, and world-class dairy production ecosystem.
- **Thailand: Tourism rebound could offset immediate export challenges.** To recap, 4QFY26 revenue contracted sharply by 15.4% yoy, owing to softer tourism, flooding and export disruptions to neighbouring countries. The export disruptions are likely to persist despite the peace treaty (has since been halted 12 November) between Thailand and Cambodia. Nonetheless, the impact is expected to be mitigated by shipment diversions through Malaysia and the upcoming completion of Cambodia's evaporated and condensed milk production facilities, which had been in progress prior to the conflict. By our estimates, sales to Cambodia account for close to 10% of Thailand sales (3% of group revenue). This would be offset by improved tourism, bolstered by tourism stimulus measures, BLACKPINK's Lisa as ambassador and the absence of natural disasters (earthquakes and floods).

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM40.00** (from RM36.30) as we raise the valuation tied to its dairy project. We continue to like F&N's prospects, with room for recovery in Thailand, the exciting upstream dairy project kicking in, and bargain valuations. A decent execution of its dairy project could spark a re-rating for the company given the structural growth and opportunities the segment offers. F&N trades at 20.1x FY26F PE, a deep bargain to 38.1x which is the average of its consumer staple peers Nestle and QL. Our target price is based on a DCF implying 25.9x FY26F PE, which is slightly above its seven-year mean of 24.4x.

Earnings Revision/Risk

- **No changes to our earnings forecast.** Key downside risks are spiralling commodities prices and USD/RM forex rates.

Share Price Catalyst

- **Decent supported yields.** F&N declared a cumulative DPS of 65 sen for FY25 (FY24: 63 sen) and a higher payout of 46.1% (FY24: 42.5%). In the five years preceding the undertaking of its dairy project, F&N had an average payout of 55% and declared that 65 sen payout would be the minimum. For now, we have assumed a 46.1% payout for FY26-28, implying a dividend yield of 2.2-2.6%.
- **Input costs and ringgit trending favourably as well.** F&N typically hedges its input costs. While the company did not disclose its current hedge positions, both sugar and skim milk powder prices have moderated significantly — now 27.8% and 15.6% lower than FY25's averages, respectively. Depending on the timing of its renewed hedge cycle, margins are expected to trend favourably in FY26. Based on sensitivity estimates, every 1% change in sugar and skim milk powder prices impacts earnings by approximately +1.0% and +1.5%, respectively. Meanwhile, the ringgit has been strengthening against the US dollar but also against the baht. Assuming the ringgit's appreciation is broad-based, earnings sensitivity stands at +0.6% for every 1% change in the ringgit vs the US dollar.

Bird's View Of F&N's AgriValley

Source: F&N

Forward PE Band

Source: Bloomberg, UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental

- **Emissions management.** Reduced solid waste intensity ratio by 62% from 2017.

Social

- **Wellbeing.** Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
- **Diversity & inclusion.** Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.

Governance

- **Board balance and composition.** Six board members are independent directors, amounting to 55% of the board members.

Source: F&N, UOB Kay Hian

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	**5,197**	**5,370**	**5,650**	**5,864**
EBITDA	905	984	1,054	1,090
Deprec. & amort.	151	224	234	244
EBIT	754	760	820	846
Associate contributions	0	0	0	0
Net interest income/(expense)	(15)	(4)	5	14
Pre-tax profit	**740**	**757**	**825**	**861**
Tax	(216)	(204)	(223)	(228)
Minorities	(6)	0	0	0
Net profit	**509**	**552**	**602**	**632**
Net profit (adj.)	517	552	602	632

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,221	2,750	2,740	2,696
Other LT assets	1,034	1,034	1,035	1,035
Cash/ST investment	626	721	1,012	1,340
Other current assets	1,733	1,648	1,732	1,803
Total assets	**5,614**	**6,153**	**6,520**	**6,873**
ST debt	0	0	0	25
Other current liabilities	1,173	1,415	1,456	1,444
LT debt	338	338	338	338
Other LT liabilities	224	224	224	224
Shareholders' equity	3,863	4,161	4,486	4,827
Minority interest	16	16	16	16
Total liabilities & equity	**5,614**	**6,153**	**6,520**	**6,873**

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	**604**	**846**	**799**	**858**
Pre-tax profit	731	757	825	861
Tax	(176)	(204)	(223)	(228)
Deprec. & amort.	205	224	234	244
Working capital changes	(108)	73	(42)	(33)
Other operating cashflows	(47)	(4)	5	14
Investing	**(717)**	**(496)**	**(230)**	**(264)**
Capex (growth)	(737)	(500)	(225)	(250)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	20	4	(5)	(14)
Financing	**(519)**	**(255)**	**(277)**	**(267)**
Dividend payments	(231)	(255)	(277)	(292)
Issue of shares	0	0	0	0
Loan repayment	(114)	0	0	25
Others/interest paid	(173)	0	0	0
Net cash inflow (outflow)	**(631)**	**95**	**292**	**327**
Beginning cash & cash equivalent	**1,135**	**626**	**721**	**1,012**
Changes due to forex impact	8	0	0	0
Ending cash & cash equivalent	**512**	**721**	**1,012**	**1,340**

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.8	18.3	18.7	18.6
Pre-tax margin	13.8	14.1	14.6	14.7
Net margin	9.6	10.3	10.7	10.8
ROA	10.9	11.4	12.0	12.2
ROE	15.2	16.1	16.8	16.8
Growth				
Turnover	30.3	34.6	41.7	47.0
EBITDA	35.2	51.9	62.7	68.3
Pre-tax profit	37.4	44.7	57.7	64.6
Net profit	21.0	34.7	46.8	54.2
Net profit (adj.)	(7.4)	9.3	9.0	5.0
EPS	26.3	38.0	50.5	58.1
Leverage				
Debt to total capital	8.7	8.1	7.5	7.5
Debt to equity	8.8	8.1	7.5	7.5
Net debt/(cash) to equity	(7.4)	(9.2)	(15.0)	(20.2)
Interest cover	59.0	261.1	0.0	0.0

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